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04-06-89 02:47PM MASTERCARD INT'L MR N. Y. P01/**

BY TELECOPY

APRIL 6, 1987

MR. CHARLES T. RUSSELL
PRESIDENT
VISA U.S.A., INC.
SAN FRANCISCO, CA 94128

TELECOPY # (415) 570-3400

DEAR CHUCK:

I REALIZE THAT THIS LETTER WILL HAVE TO BE FORWARDED TO YOU IN GERMANY, BUT I WANTED TO FOLLOW UP ON OUR AGREEMENTS IN CHICAGO REGARDING SMART CARD.

I UNDERSTAND THAT BENNETT KATZ HAS MADE CONTACT WITH BOB NORTON TO DISCUSS THE MEETING WITH JUSTICE. I AM HOPEFUL THAT THIS MEETING CAN BE HELD SOON AND I ASKED BOB TO MAKE THIS A HIGH PRIORITY. I BELIEVE THEY WILL BE TALKING AGAIN THIS THURSDAY.

AS TO A DATE FOR US AND OUR SENIOR STAFFS TO MEET TO REVIEW THE BUSINESS CASE FOR SMART CARD, I WOULD LIKE TO SUGGEST MAY 14 IN THE SAN FRANCISCO AREA. AS YOU KNOW, WE WILL BOTH BE IN CARMEL FOR THE ABA EXECUTIVE COMMITTEE MEETING, WHICH BEGINS WITH A DINNER ON MAY 14. I WILL BE FLYING TO SAN FRANCISCO ON THE 13 AND I CAN MAKE OUR STAFFS AVAILABLE FOR THE DAY OF THE 14.

I WOULD APPRECIATE HEARING YOUR THOUGHTS ABOUT THIS DATE.

REGARDS,

RUSSELL E. HOGG
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

MASTERCARD INTERNATIONAL INC.

GOVERNMENT
DEPOSITION
EXHIBIT
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P-0258

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M153702

Dear Russ:

Thank you for your telex of April 6, 1987. Before responding to the request made in that telex, I think it would be useful to confirm the results of our joint Executive Committee meeting so that there would be no misunderstanding going ahead.

I - Entree Program

There were four issues discussed with the following resolutions:

(a) 6¢ fee

As you know, Visa has always been of the view that a 6¢ minimum fee made little or no business sense. However, MasterCard felt so strongly on the point that it made that minimum fee a condition for going ahead with the Entree Program. Only recently did MasterCard change its mind and consequently our only concern was that Visa would not be put in a competitive disadvantage and that the Entree participants would not feel deceived. Since Visa established that it would not be in a competitive disadvantage and MasterCard management assured our management that removing the 6¢ would not create havoc among the Entree participants, Visa management recommended to its Executive Committee that the 6¢ minimum fee be eliminated on the condition that our Board establish a policy that no matter what fee MasterCard adopts, even if below cost, Visa would match to remain competitive. Since the Visa Board did adopt such a policy, both Visa and MasterCard agreed at the joint meeting to the elimination of the joint fee.

(b) Entree on the Classic Visa and MasterCard Debit Card

As you know, Visa has over 8 million classic debit cards while I believe MasterCard has fewer than 2 million. Visa was of the view that those issuers would not want to issue two plastics to their better deposit account customers and hence requested that the Entree mark appear on the Classic Visa card. MasterCard on the other hand, felt that such appearance might erode merchant credit card discount rates and hence advised our Board that unless we changed

our position MasterCard would refuse to go ahead with the Entree program.

Although we still strongly believe in our position, we also feel a moral commitment to those Entree participants which have worked long and hard in bringing the Entree program to this point. Accordingly, we suggested a six-month moratorium during which time Entree could not appear on Visa and MasterCard classic debit cards with the understanding that the joint Executive Committees will review in good faith this issue once again. Hopefully by that time we will have additional information to better assess this issue.

(c) Tripart Decal

Visa had requested agreement from MasterCard that if a significant number of Electron cards were issued outside the U.S. and those cardholders were experiencing difficulty in acceptance at Entree merchants, we would mandate that the Electron mark, as well as any MasterCard international debit card mark, be posted at Entree merchants. Although initially MasterCard was against this position, your Executive Committee compromised by agreeing to that mandatory posting on the condition that before making such a mandate, the evidence of confusion first be reviewed with the joint Executive Committees and that MasterCard would have 24 months to develop their own international mark so that at the time the Electron mark would begin appearing at merchant location, it would appear together with the MasterCard international mark. This was agreed to by the Visa Executive Committee.

(d) Executive Director

Visa believes that we should insure that the Entree program does not develop unnecessary expenses at a time when we are unsure of the economic viability of the Entree program. For this reason, we did not want to signal to the Entree participants that we are in favor of appointing a separate

staff to run the program. MasterCard, on the other hand, felt that we should agree up front that if the need arises to appoint an executive director, we would do so.

Visa agreed to MasterCard's position on the understanding that both Visa and MasterCard would appoint senior officers to oversee the program. In that connection, we appointed B. Ray Traweck who reports directly to me and we hope that you will likewise appoint a senior officer who reports directly to you. We believe this will insure the success of our joint management of the Entree program and eliminate any need for an executive director. Any such appointment would only signify our joint failure to devote the necessary resources to insure success.

II - Smart Cards

MasterCard proposed that MasterCard and Visa immediately share all information and knowhow regarding their respective smart card technology, commence development of smart card standards and announce to the industry that Visa and MasterCard will be developing a common approach.

Visa, on the other hand, suggested that because of the respective biases of the two organisations in their divergent approaches to smart cards, we ought to retain one or two reputable business consultants such as Booz Allen and McKinsey & Co., to independently study the problem. We believe a decision to implement smart cards is over a billion dollar decision for our industry and therefore should be studied objectively so that we avoid serious mistakes which could cause irreparable harm to our member banks. We also believe it is premature to begin working on smart card standards until that study is complete since any such standard could do more harm than good if it is done prematurely before certain basic issues are addressed and considered.

At the joint Executive Committee meeting your Executive Committee was concerned that such a study might result in unnecessary delays and hence suggested that you and I get together within the next 30 days to outline the issues which must be addressed before any decisions can be jointly made regarding chip cards. Our Executive Committee concurred and consequently such a meeting should occur as soon as possible.

Responding to the specifics of your telex, it is my understanding that Bennett Katz and Bob Norton agreed that it would be premature to visit Justice until you and I have developed the issues to be addressed and a methodology for resolving those issues.

In that context, I assume the meeting you have requested on May 14 is for that purpose. In the meantime, we will be developing those issues with a recommended methodology which we will share with you prior to the meeting. I hope that you can do the same with the hope that we can come to agreement on May 14.

I look forward to seeing you in San Francisco.

Regards,

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